

EUROPEAN PARLIAMENT

EUROPEAN PARLIAMENT DELEGATION

for relations with

THE UNITED STATES

25th meeting of delegations

19-26 June 1985

WASHINGTON, DC and WEST POINT, NY

Background note

on

US/EC agricultural relations

drawn up by

the Directorate-General for

Research and Documentation

DIRECTORATE-GENERAL FOR COMMITTEES
AND INTERPARLIAMENTARY DELEGATIONS

US/EC AGRICULTURAL RELATIONS

Situation of US Agriculture

Present US agricultural difficulties have their origins in the inflationary boom of the 1970s when exports were expanding and production was at a high level. Since then production has continued to increase but available markets have not increased to the same extent.

The earlier boom conditions led to a considerable increase in land prices, which in some areas quadrupled during the decade.

Today 'disinflation' has set in. Farm income has dropped by one third since 1978, and many farmers are saddled with crippling debts. It is estimated that America's 2.4 m farmers have borrowed more than £215 bn, much of it in the mid-West and that interest costs account for 40% of farm income. At the same time land prices are falling, thus wiping out the value of collateral against which banks have been lending to farmers.

One factor behind the decline has been high real interest rates which exist because of the Federal Reserve's determined anti-inflation policy. Farmers have also been hit by the domestic and international recession and by the strong dollar, all of which combined to push product prices down in the US and reduce exports.

At the same time government warehouses hold considerable surpluses of agricultural produce which include more than 1 bn bushels of wheat and 13 bn pounds of milk products. The US government attitude is that this situation requires a radical review of agricultural loans and subsidies that have assisted farmers for the past half century.

The US Farm Bill proposals

In February 1985, Mr John Block, the Secretary of Agriculture, introduced the Agricultural Adjustment Act 1985, usually referred to as the Farm Bill. This Bill is designed to:

- reduce government support to farm incomes
- end direct government loans to farmers which act as a minimum guarantee price
- abandon controls on production
- encourage the expansion of US agricultural exports

by the end of the 1980s. In this way US agriculture would be obliged to adapt to free market trading conditions.

The American Farm Bureau Federation, the nation's largest farm organisation, is prepared to accept less spending on agriculture if this is offset by greater market shares and income opportunities for exports.

Likely outcome of these proposals

There is great pressure to soften the provisions of the Bill. This pressure is having some effect as the Administration has announced on 13 April last that budgetary cuts in agricultural spending originally estimated at \$26 bn over the next three years would be reduced to \$14 bn. Moreover, it is prepared to accept a more gradual reduction in support prices and subsidies and increased credit for farmers. The argument is being strongly put to farmers that lower prices need not necessarily mean lower incomes if production and exports expand. Foreign customers will help to maintain American farm incomes and at the same time reap the benefit of lower prices. This policy, if successful, would put considerable pressure on the European Community as it is likely not only to increase the cost of restitutions on exports, but also internal disposal costs and deficiency payments. These difficulties would be compounded if the American dollar were to fail to maintain its present high level.

BICEP

In view of the difficulties which the Administration is experiencing with the Farm Bill as at present drafted, separate measures were announced on 15 May last to adopt a Bonus Incentive Commodity Export Programme (BICEP). This programme will operate from 1 June and will cost \$2 bn over the next three years. Mr. Block called this programme 'an offensive on the international market', aimed at reconquering markets which were won from American farmers by their competitors by means of 'unfair trading practices'.

This programme is particularly aimed at markets captured by the EC through the use of export subsidies.

Article XVI of GATT

Under Article XVI of the General Agreement on Tariffs and Trade the contracting parties recognise that the granting of a subsidy on the export of any product may lead to price undercutting or may have harmful effects for other contracting parties.

Accordingly, contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, it shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or may be affecting trade in the product.

Trade in cereals

The United States complained in GATT that the EC, by subsidising its exports of wheat, had increased its markets overseas to the detriment of its competitors. No action was taken on this complaint because it was considered that, while the EC had effectively increased its sales on the world market, it did not exceed its equitable share of the market.

Since 1978/79, world trade in wheat and wheat flour rose by 40% from 71m tonnes to over 100 m tonnes. Although the Americans partially suspended grain sales to the Soviet Union from January 1980 to April 1981, their exports of wheat and wheat flour rose from 32m to 49m tonnes between 1978/79 and 1981/82. They declined to 42m tonnes in 1982/83. Community exports were about 14.5m tonnes. In 1984 US exports of wheat were 42 m tonnes; EC exports were 11.2 m tonnes.

Thus American sales to third countries have in recent years grown faster than Community exports to those countries. From 1971 to 1981 the Community's share of the world wheat market rose from 9% to 14.5%, while the US share rose from

31.9% to 49% . The latter fell back to 42% in 1982/83. The fall in US exports has been attributed by the Wall Street Journal to the high value of the dollar and to US policy of supporting prices.

The Community undertook to confine itself to about 14% of the world market in accordance with Article XVI of GATT. Since then trading conditions have changed. The volume of world wheat trade has changed and also the volume marketed by other producers.

The US has refused to discuss the question of market share, partly because the high value of the dollar has reduced refunds to a fraction of their previous level, while the US operates blended credits which are in fact a subsidy.

The current world market is influenced by poor harvests in traditional exporting countries other than the EC and USA; increased Soviet demand; a wheat harvest in the Community for the first time exceeding that of the United States (73 m tonnes compared to 69 m tonnes approximately, including durum wheat). European export capacity is around 20 m tonnes for 1984/85, therefore 20% approximately of the world wheat trade, estimated at slightly over 100 m tonnes. The EEC's self-imposed "obligation" to confine itself to 14% of the world market is being questioned, since it applies to sales with refunds and these refunds have practically disappeared, on account of the approximation between world prices and Community prices. American exporters are greatly opposed to any increase in sales of Community wheat on third country markets, while they themselves are making every effort to increase their own sales and thus regain the position they previously held on world markets.

Payment of refunds on EC exports

Mr Daniel Omstats, American Under Secretary of State for Agriculture, stated recently that they understood the importance of the CAP, but this policy should meet their demands on export subsidies and access to international markets. They wish to eliminate all restrictions and subsidies and discussions should relate to measures taken on both sides.

Other areas of contention

(i) Imports of soya and corn gluten feed

3.6 bn tonnes of corn gluten were imported into the Community in 1983, valued at £562 m; these imports increased more than fivefold over the last ten years. In the same year oilcake and soyacake imports amounted to 26.3 bn tonnes. These imports enter the Community at zero or low rate import duty and are used largely in animal feed. They compete with Community-grown cereals with the result that demand for these cereals for use as animal feed has been falling. This has aggravated the difficulties which exist within the Community because of its substantial surplus of cereals.

The European Parliament has on a number of occasions since 1982 pressed for the opening of negotiations with the US with a view to seeking voluntary limitation agreements on US exports of corn gluten feed and soya.

Early in 1984 the Community proposed that imports of corn gluten feed be stabilised at 3.4 m tonnes per annum through GATT procedures. Such restriction of imports could reduce dairy surplus production in the Community and encourage EC farmers to use more home-grown cereals in animal fodder. This would reduce CAP expenditure and also Community exports of cereals which compete with US exports on world markets.

The Community proposal, if accepted by the Americans, would undoubtedly lead to claims for compensation.

In fact, the Americans opposed this suggestion as they do not wish to limit a lucrative market and they feel that, if they accept a quota on corn-gluten, they may leave the door open to a similar move on soya. Negotiations have made no progress.

The question of restricting soya imports is also complicated by the question of granting acceptable compensation to the US. In fact, the matter has not been raised in GATT as the US attitude to such a suggestion would be completely negative.

(ii) Wine

Measures governing imports of wine into the US became law last October as part of the Trade and Tariff Act which contains provisions on a variety of trade issues. Shortly after this Act became law, the Community challenged in the GATT measures concerning the extensions of the definition of domestic wine industry to include grapes.

At the Community's request a panel is being set up under the GATT code on subsidies and countervailing duties to consider this matter.

(iii) Citrus Fruit

The Americans have complained that tariff preferences granted by the EC to several Mediterranean countries, including Algeria, Morocco, Tunisia, Israel and Cyprus in relation to imports of citrus fruits and juices are damaging US exports to the Community with the result that they have only 6% of the EC market.

A GATT panel which was established to examine this complaint found that US exporters were adversely affected and were entitled to compensation for fresh oranges and lemons. The EC strongly disputes this conclusion which leaves the way open to the questioning of all preferential systems operating for the benefit of developing countries.

The GATT Council rejected the panel findings. The Commission had argued that a contracting party participating in a customs union or a free trade area was obliged to notify GATT members of this fact. This had been done by the EC and the US had raised no objection at that time.

The US administration has prepared a proposal to increase duties on their imports of pasta from the Community. This move is subject to President Reagan's approval and a decision is expected before the end of June.